

PERFORMANCE AUDIT
OF THE
FEDERAL CASH MANAGEMENT IMPROVEMENT ACT PROGRAM

DEPARTMENT OF TREASURY

November 2001

EXECUTIVE DIGEST

FEDERAL CASH MANAGEMENT IMPROVEMENT ACT PROGRAM

INTRODUCTION	This report, issued in November 2001, contains the results of our performance audit* of the Federal Cash Management Improvement Act Program, Department of Treasury.
AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.
BACKGROUND	<p>The federal Cash Management Improvement Act (CMIA) of 1990, as amended, and the associated federal regulations require agreements between the states and the Secretary of the Treasury, U.S. Department of Treasury. The Michigan Department of Treasury, as State coordinator, has entered into agreements on behalf of the State of Michigan. These agreements primarily describe the methods to be used to request federal funds and require the payment of interest by either party if funds are not received on a timely basis.</p> <p>The Department of Treasury's responsibilities include ensuring that all applicable federal programs are included in the agreements; performing draws of federal funds for</p>

* See glossary at end of report for definition.

selected programs; developing check clearance patterns* for State disbursements; performing interest calculations, when applicable; submitting claims for reimbursement of direct costs for implementing CMIA; and submitting an annual report to the U.S. Department of Treasury.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the effectiveness of the Department's efforts as the State coordinator for the CMIA agreements and in ensuring that all applicable federal programs were included in the agreements.

Conclusion: We concluded that the Department was generally effective as the State coordinator for the CMIA agreements and in ensuring that all applicable federal programs were included in the agreements. However, we noted a reportable condition* related to clearance patterns (Finding 1).

Audit Objective: To assess the effectiveness of the Department's procedures related to developing check clearance patterns, performing interest calculations, and submitting an annual report to the U.S. Department of Treasury.

Conclusion: We concluded that the Department's procedures related to developing check clearance patterns, performing interest calculations, and submitting an annual report to the U.S. Department of Treasury were effective. Our report does not include any reportable conditions related to this objective.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Federal Cash Management Improvement Act Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller

* See glossary at end of report for definition.

General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit objectives included examination of agency procedures and records for the period October 1, 1999 through September 30, 2000. Our audit methodology included an analysis of the procedures and documentation used to develop the CMIA agreements and check clearance patterns. Also, we verified the calculation of interest owed to or due from the federal government. In addition, we examined the annual report, procedures for submission, and documentation supporting the annual report.

AGENCY RESPONSE

Our audit report contains 1 finding and 2 corresponding recommendations. The Department's preliminary response indicated that it agreed with the finding and will comply with the recommendations.

This page left intentionally blank.

November 21, 2001

Dr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Dr. Roberts:

This is our report on the performance audit of the Federal Cash Management Improvement Act Program, Department of Treasury.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses; comments, finding, recommendations, and agency preliminary response; and a glossary of acronyms and terms.

The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

This page left intentionally blank.

TABLE OF CONTENTS

FEDERAL CASH MANAGEMENT IMPROVEMENT ACT PROGRAM DEPARTMENT OF TREASURY

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	8
Audit Objectives, Scope, and Methodology and Agency Responses	9

COMMENTS, FINDING, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSE

Effectiveness of the Department's Efforts	11
1. Clearance Patterns	11
Effectiveness of the Department's Procedures	13

GLOSSARY

Glossary of Acronyms and Terms	14
--------------------------------	----

Description of Agency

The federal Cash Management Improvement Act (CMIA) of 1990, as amended, and the associated federal regulations are designed to ensure fairness between the federal government and the states with regard to the use of federal and state funds for federally mandated programs.

CMIA and associated regulations require agreements between the states and the Secretary of the Treasury, U.S. Department of Treasury. The Michigan Department of Treasury, as State coordinator, has entered into agreements on behalf of the State of Michigan. The first agreement covered fiscal year 1993-94, the second agreement covered the five fiscal years ended September 30, 1999, and the third agreement covers the five fiscal years ending September 30, 2004. These agreements primarily describe the methods to be used to request federal funds and require the payment of interest by either party if funds are not received on a timely basis.

The Department of Treasury and other State departments share the responsibility for complying with the CMIA agreements. The Department of Treasury's responsibilities include ensuring that all applicable federal programs are included in the agreements; performing draws of federal funds for selected programs; developing check clearance patterns for State disbursements; performing interest calculations, when applicable; submitting claims for reimbursement of direct costs for implementing CMIA; and submitting an annual report to the U.S. Department of Treasury.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of the Federal Cash Management Improvement Act (CMIA) Program, Department of Treasury, had the following objectives:

1. To assess the effectiveness of the Department's efforts as the State coordinator for the CMIA agreements and in ensuring that all applicable federal programs were included in the agreements.
2. To assess the effectiveness of the Department's procedures related to developing check clearance patterns, performing interest calculations, and submitting an annual report to the U.S. Department of Treasury.

Audit Scope

Our audit scope was to examine the program and other records of the Federal Cash Management Improvement Act Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The cash management practices used by the individual State departments are examined during our separate financial audits, including the provisions of the Single Audit Act, of those departments.

Audit Methodology

Our audit procedures, conducted primarily during March through June 2001, included examination of agency procedures and records for the period October 1, 1999 through September 30, 2000.

To assess the effectiveness of the Department's efforts as the State coordinator for the CMIA agreements and in ensuring that all applicable federal programs were included in the agreements, we analyzed the procedures and documentation used to develop the CMIA agreements covering fiscal year 1999-2000.

To assess the effectiveness of the Department's procedures related to developing check clearance patterns, we analyzed the procedures and documentation used to develop check clearance patterns for fiscal year 1999-2000.

To assess the effectiveness of the Department's procedures related to performing interest calculations, we verified its calculation of interest owed to or due from the federal government for fiscal year 1999-2000 based on financial data submitted to the Department by other State departments.

To assess the effectiveness of the Department's procedures related to submitting an annual report to the U.S. Department of Treasury, we examined the annual report, procedures for submission, and documentation supporting the annual report submitted for fiscal year 1999-2000.

Agency Responses

Our audit report contains 1 finding and 2 corresponding recommendations. The Department's preliminary response indicated that it agreed with the finding and will comply with the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Treasury to develop a formal response to our audit finding and recommendations within 60 days after release of the audit report.

COMMENTS, FINDING, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSE

EFFECTIVENESS OF THE DEPARTMENT'S EFFORTS

COMMENT

Audit Objective: To assess the effectiveness of the Department of Treasury's efforts as the State coordinator for the federal Cash Management Improvement Act (CMIA) agreements and in ensuring that all applicable federal programs were included in the agreements.

Conclusion: We concluded that the Department was generally effective as the State coordinator for the CMIA agreements and in ensuring that all applicable federal programs were included in the agreements. However, we noted a reportable condition related to clearance patterns.

FINDING

1. Clearance Patterns

The CMIA agreement between the Department and the U.S. Department of Treasury contained ambiguous instructions for developing clearance patterns. Also, the instructions were incompatible with instructions for requesting federal funds.

The Department is responsible for coordinating and amending the CMIA agreement with the U.S. Department of Treasury. Amendments made to the agreement are reviewed and must be approved by the U.S. Department of Treasury. Section 7.9 of the CMIA agreement requires the State to certify every five years that the clearance patterns developed by the State accurately correspond to the clearance activity of the program to which it applies. Clearance patterns are developed so federal funds will be received by the State when payments made by the State for the federal share of program expenditures clear the State's bank account. The clearance pattern calculation determines the number of days that the State must wait before requesting reimbursement of the federal share of program expenditures.

However, the CMIA agreement with the U.S. Department of Treasury includes instructions for developing the clearance patterns and requesting federal funds that are ambiguous on whether to use business or calendar days.

In attempting to comply with section 7.9 of the CMIA agreement, the Department calculated new clearance patterns based on calendar days for the 27 federal programs included in the CMIA agreement effective October 1, 1999. The Department obtained approval from the U.S. Department of Treasury and provided the amended CMIA agreement to other State departments to implement the approved clearance patterns.

State departments continued to request federal funds using business days. However, calculating clearance patterns on calendar days and requesting reimbursement of federal expenditures on business days creates an incompatible relationship, which could extend the time before the State receives reimbursement of the federal share of expenditures.

As a result of our audit, the Department contacted the U.S. Department of Treasury for clarification of the CMIA agreement. The U.S. Department of Treasury informed the Department that the clearance patterns should be calculated on calendar days and State departments should request funds based on calendar days.

Our review of the Department's clearance patterns disclosed that State departments requested federal funds using business days rather than calendar days. If State departments used calendar days instead of business days, funds could have been requested earlier for 11 of the 27 federal programs. This would have resulted in interest to the State for fiscal year 1999-2000 of approximately \$1.5 million prior to the Department receiving clarification from the U.S. Department of Treasury to use calendar days. Although we did not calculate the amount, additional interest would have been earned in fiscal year 2000-01.

RECOMMENDATIONS

We recommend that the Department work with the U.S. Department of Treasury to resolve ambiguities in the instructions for developing clearance patterns contained in the CMIA agreement and to ensure that the instructions are compatible with instructions for requesting federal funds.

We also recommend that the Department request reimbursement from the U.S. Department of Treasury for the interest that would have been earned if reimbursement of the federal share of program expenditures had been based on calendar days.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding. The Department informed us that it aligned the clearance pattern methodology to the methodology used by agencies for drawing federal funds and that federal funds are now being requested based on calendar days. The Department will conduct a review of the CMIA agreement to determine whether additional clarifications need to be made to the instructions included in the agreement.

In addition, the Department will discuss the finding with the U.S. Department of Treasury and request reimbursement of interest that would have been earned had the draws been based on calendar days.

EFFECTIVENESS OF THE DEPARTMENT'S PROCEDURES

COMMENT

Audit Objective: To assess the effectiveness of the Department's procedures related to developing check clearance patterns, performing interest calculations, and submitting an annual report to the U.S. Department of Treasury.

Conclusion: We concluded that the Department's procedures related to developing check clearance patterns, performing interest calculations, and submitting an annual report to the U.S. Department of Treasury were effective. Our report does not include any reportable conditions related to this objective.

Glossary of Acronyms and Terms

clearance pattern	A frequency distribution showing the proportion of a total amount disbursed that is debited against the payer's bank account each day after the disbursement.
CMIA	federal Cash Management Improvement Act.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.